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CBO BASELINE: THE DEFICIT IS GROWING AGAIN
JANUARY 23, 2008

The Congressional Budget Office released its new January baseline today. Assuming current laws and policies, the CBO forecasts that in FY 2008, revenues will total \$2.7 trillion, expenditures will be \$2.9 trillion, the deficit will be \$219 billion (up from \$163 billion in 2007), and the on-budget deficit will be \$414 billion. As a share of GDP, revenues will be 18.7%, expenditures will be 20.2%, the deficit will be 1.5%, and the on-budget deficit will be 2.9%.

Current and Past Projections for 2008 & 2007 Actuals (Billions):

Table with 5 columns: Category, Current 2008 Projection, August's 2008 Projection, January's 2008 Projection, 2007 Actual. Rows include Revenues, Expenditures, Unified Deficit, On-Budget Deficit, Debt Held by the Public, and GDP.

Deficit Projections (Billions):

Table with 13 columns: Year (2007A-2018) and 2 rows: Deficit, % GDP.

The deterioration in the projection for the 2008 deficit from \$155 billion to \$219 billion is due to declining revenue estimates and the Alternative Minimum Tax patch that Congress passed. The CBO is not projecting the economic slowdown to turn into a recession and is projecting a rebound in 2009, so the lower economic assumptions do not lead to significantly higher deficits in the out years.

Since it is based on current law, the baseline does not reflect likely policy changes. For 2008, the baseline does not include costs for a stimulus package or additional funding for Iraq and Afghanistan. Taking these likely costs into account, the 2008 deficit will probably be closer to \$400 billion than \$219 billion. If the 2001 and 2003 tax cuts are extended and the AMT is indexed for inflation, CBO estimates that total revenues would be almost \$600 billion lower between 2011 and 2018. Also, by convention, CBO assumes discretionary spending will grow at the rate of inflation. In reality, outlays for discretionary spending have only grown by less than inflation in one of the past ten years. If discretionary spending were assumed to grow at the rate of nominal GDP instead, outlays would cost another \$1.4 trillion over the ten year period.

### **Noteworthy**

- The 2008 deficit is likely to be much larger than the baseline suggests.
- Projected surpluses beginning after 2012 occur mainly due to revenue growth from the expiration of the 2001 and 2003 tax cuts, and the growing projected revenues from the Alternative Minimum Tax, both which may fail to materialize.
- Healthcare costs are a major driver of expenditures, as Medicare and Medicaid are projected to more than double in cost over the next ten years.
- As mandatory costs increase, discretionary outlays are projected to fall from 7.6% of GDP in 2007 to 6.1% of GDP in 2018, which would be lower than at any point in the last 40 years.
- The provisions of the Deficit Control Act that instruct CBO how to construct the baseline have expired. So much attention is now given to “alternative baselines” (such as different assumptions of defense spending, growth in domestic discretionary appropriations, or tax policy) that it would be worthwhile to revisit how the baseline is determined.
- Yesterday, we released a statement on fiscal stimulus. The Committee for a Responsible Federal Budget believes that no stimulus is better than a bad package and that after passing a stimulus package, the President and the Congress should focus on developing a long-term budget plan that addresses entitlements, tax reform, and spending restraint. <http://www.crfb.org/documents/StimulusStatementJan2008.doc>
- Looking ahead, improving the fiscal health of the nation will be greatly effected by how dedicated the next president is to long-term budget goals, and how effective he or she is at working with Congress to achieve these goals. So far, none of the presidential candidates have put forth a plan for how to balance the budget in the short or long-run. The topic of fiscal responsibility must be elevated to a top tier issue and the Committee for a Responsible Federal Budget urges all politicians and candidates to turn their attention to this important topic.